

Budget Education Sessions

Series #1:

Introduction to Fund Accounting

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Introduction to Fund Accounting

- What is fund accounting?
- How does it differ from private sector accounting?
- Washington State Budget, Accounting and Reporting System
- Redmond's funds and how they work

What is Fund Accounting?

- GAAP for Government
- Way of segregating resources to ensure money spent for only approved purpose
- Each fund operates as a separate accounting entity
- Total funds used by Redmond - 56.

Differences between Fund Accounting vs. Private Sector Accounting

- Different focus
- Government accounting focus
 - Prudent use of public funds
 - Adequate resources available
 - Monies spent for approved purposes
 - Not concerned for the most part about profit/loss except in utility funds
 - Uses modified accrual accounting (very close to cash)

Differences between Fund Accounting vs. Private Sector Accounting (cont.)

- Private sector focus
 - Profit and loss
 - Uses full accrual accounting
 - Revenues recorded when earned and expenses recorded when incurred without regard to when cash is received

Washington State Budget, Accounting and Reporting System

- Prescribed by state law
- State Auditor given authority to establish a system of budgeting and reporting for all local governments and the State
- SAO elected position - Brian Sonntag, SAO
- Legal Counsel for SAO – State Attorney General
- SAO responsible for annual audits

Redmond Funds and How they Work

■ General Fund

- Accounts for all transactions not required to be accounted for in other funds
- Pays for basic city services
- Funded primarily by taxes and fees
 - No direct relationship between taxes paid and services received
- Expenditures organized by department
- Provides funding to other city funds (policy)
 - CIP, equipment replacement, reserves, human services, park activities

Special Revenue Funds

- Extension of the General Fund
- Accounts for restricted revenue sources (policy or law)
- Fund examples
 - Operating Reserves Fund
 - Equipment replacement reserves
 - Business tax
 - Advanced Life Support

Special Revenue Funds (cont.)

■ Operating Reserves Fund

- General Fund operating reserves (policy)
 - 10% of General Fund Operating Revenue
 - Offset significant downturns
 - Cash flow for daily needs
- Building permit reserves (policy)
 - 25% of annual building inspection and review costs
 - Funding to complete building permit responsibilities in declining development period

Special Revenue Funds (cont.)

- Equipment Replacement Reserves
 - General capital equipment reserves (policy)
 - Funding-\$1 million annual transfer from the General Fund
 - Replace general government capital equipment excluding buildings
 - Fire equipment reserves (policy)
 - Funding-\$261,000 annual transfer from the General Fund, \$200,000 annual transfer from the Fire CIP Fund-partially funded by FD 34 contribution
 - Replace Fire Department capital equipment excluding buildings

Special Revenue Funds (cont.)

- Business Tax Surcharge (policy)
 - \$55 per employee surcharge
 - Established to fund transportation capital and demand management projects
 - Sunsets at the end of 2004
 - Requires Council approval to reinstate

Special Revenue Funds (cont.)

- Advanced Life Support
 - Redmond lead agency providing ALS services for the East King County ALS consortium
 - Funded by King County EMS levy (law)

Debt Service Funds

- Pay principal and interest on general long-term debt
- Types of debt-Council approved, voted, LID
- Little debt outstanding
- Lots of legal capacity, very little internal capacity to service debt

Capital Projects Funds

- Pay for general government capital construction projects
- Six functional areas
 - Council contingency
 - Transportation
 - General Government
 - Park
 - Police
 - Fire

Capital Projects Funds (cont.)

- Funded by:
 - General Fund transfers of 5% of revenues (policy)
 - Real estate excise tax (law)
 - Impact fees (law)
 - Business license surcharge (policy)
 - Grants (law)

Utility Funds

- Financed and operated similar to private business
- Goal-charge fees sufficient to cover operating, maintenance and capital costs
- Three utilities
 - City water/wastewater
 - UPD water/wastewater
 - Stormwater management

Internal Service Funds

- Account for central services provided to city departments
- Funded by transfers from other funds-double counted

Internal Service Funds (cont.)

- Five funds
 - Medical Insurance
 - Workmen's Compensation
 - Fleet Maintenance
 - Information Technology
 - Insurance Claims and Reserves

Questions???
